22.01 Business Combinations & Consolidations

Overview

ASC 805 represents a conceptually more consistent method of consolidation and improves financial reporting by reflecting the **economic entity concept**. Under the economic entity concept, the consolidated statements are prepared as if the group of legal entities were one economic entity. The method will:

- Better reflect the investment made by the Acquirer,
- Enhance financial statement comparability between companies, and
- Provide more complete and relevant financial information.

When one corporation, the **Acquirer** *(the Parent)* acquires **control** (a controlling financial interest) in another entity, the **Acquiree** *(the Subsidiary)*, this creates a relationship requiring the preparation of consolidated financial statements (F/S) at each balance sheet date. The Acquisition date is the date on which the acquirer obtains a controlling financial interest in the Acquiree.

- A controlling financial interest is most commonly obtained when one entity obtains a majority of the voting equity of another.
    - Note, however, that there are circumstances where an entity can own more than 50% of the voting equity of another entity and not have a controlling financial interest. This would typically be when control is only temporary or when majority ownership does not provide the holder with control over the entity.
- A controlling financial interest may also be obtained due to the relationship between the entities. The controlled entity would be considered a variable interest entity (VIE) under ASC 810. The entity with control is considered the primary beneficiary of the VIE and, having a controlling financial interest, will be required to prepare consolidated F/S.

Investor / Investee	0 – 20%	**Adjusted cost method**
	20% – 50%	**Equity method** (One-line consolidation)
Acquirer / Acquiree	50% +	**Consolidations** (During year adjusted cost or equity – gets eliminated at year end)